

November 10-11, 2005
Dusit Hotel Nikko, Makati City
Philippines

TECHNICAL EXPERTS CONFERENCE ASIA

Environmental Governance Standards for DFIs in Asia



Partner- Organizations

Association of
Development Financing
Institutions in Asia and
the Pacific (ADFIAP)



Wuppertal Institute for
Climate, Environment,
and Energy (WI), Germany



Sustainability Research
Institute, School of Earth
and Environment of the
University of Leeds, UK

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from:



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EXECUTIVE SUMMARY

Convened in Manila by ADFIAP, twenty three (23) officers of 22 Association member-institutions in 15 countries attended on November 10 & 11, 2005, the *Technical Experts Conference Asia* which proved to be a very fruitful activity with the participants sharing their best practices and providing inputs to the Association's "*Environmental Governance Standards for DFIs*" (EGS) project.



The participants, resource persons and guests

The conference marks the first of a series of capacity-building activities to be held under the Asia Pro-Eco Programme grant that the Association received from the European Union. ADFIAP's EU partners, namely, Germany's Wuppertal Institute for Climate, Environment & Energy and the U.K.'s University of Leeds School of Earth and Environment's Sustainability Research Institute, provided the main resource persons for the event.



Mr. Luc Vandebon, Charge d'affaires, European Delegation to the Phils.

The EGS is an 18-month, €346,446-grant project whose ultimate goal is to support the "greening" of the banking and finance sector in Asia through the development and implementation of

environmental governance standards for ADFIAP member-DFIs and other participating institutions. The end results of the EGS project will consist of an *Environmental Performance Monitoring Program* (EPM) that comprises specialized management tools and instruments at the institutional level to benchmark their internal environmental management policies and practices against best-industry standards and the *Environmental Rating Standards for Loan Appraisal and Project Finance* (ERS), a set of concrete measures for integrating environmental issues in established risk assessment procedures in lending to borrower-clients.



ADFIAP Chairman, Amb. Jesus P. Tambunting

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The end results of the EGS project will consist of learning materials on an internal environmental management system to address in-house environmental issues, and an environmental rating standard for loan appraisal and project finance to integrate environmental issues in established risk assessment procedures in lending.

The project is a milestone for ADFIAP as this is the first time it has participated in a competitive nature for an EU grant.

The event was graced by the Deputy Head of the European Delegation to the Philippines, **Mr. Luc Vandebon**, current ADFIAP Chairman and Chair/CEO of Planters Development Bank, **Ambassador Jesus P. Tambunting** and keynoted by the **Hon. Diwa Guinigundo**, Deputy Governor of the Central Bank of the Philippines.



*Central Bank Deputy
Gov. Diwa Guinigundo*

BACKGROUND OF THE PROJECT

The Challenge

For many years, the banking sector in general did not consider "greening" the industry a relevant issue. Being in the "non-polluting" service sector, in contrast to the traditional industry sectors with high external environmental effects, banks were not the focus of discussion with regard to environmental issues.

This situation eventually started to change in the early 90's. With legal and stakeholder concerns such as lender liability on environmental miscues plus a growing public awareness due to the leverage effect of investments, the banking sector faced new challenges. Environmental issues suddenly became a part of their daily business, consequently embracing new principles and practices of environmental performance evaluation, risk management, and due diligence.

Development finance institutions (DFIs) in emerging markets and developing countries are no exceptions to this trend. Mostly set up by their local or national governments as specialized financial institutions providing long-term financing and technical assistance to economic sectors to vitalize the country's development and growth, the DFIs' outlook for environmental issues have been a minor concern for many years.

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The Response

This changed however in 1998 when member-DFIs of ADFIAP launched the *Greening of DFIs Project* to promote and institute environmental due diligence in lending. Building on the experience of this *greening* project and with the support of the European Commission, ADFIAP is set to initiate an *EU-Asia Environmental Governance Partnership Initiative* that leads to the development and initial application of Environmental Governance Standards (EGS) for the DFIs. This partnership initiative will ensure a wide participation of DFIs in Asia in order to promote good corporate environmental policy and practices. The EGS has two main pillars, the Internal Environmental Management System for in-house environmental performance improvements and the Environmental Performance Monitoring Program for internal application within DFIs and the Environmental Rating Standards for Loan Appraisal and Project Finance as an external dimension of promoting good environmental management in borrower-clients.



CONFERENCE OBJECTIVES

As mentioned earlier, the Technical Experts Conference Asia has been designed as the first of a series of capacity-building interventions of the EGS project of ADFIAP. The conference objectives are shown below:

The Objectives of the Conference

- Determine the current status of Environmental Governance (EG) reforms among DFIs in the region;



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- Promote best practices by showcasing innovative, comprehensive local initiatives to make DFIs more socially-responsible by adhering to good corporate environmental policy;
- Offer practical information and tools focusing on how the member-DFIs in Asia can work together to develop a shared vision and action agenda for sustainability of the project;
- Use the expertise available at the conference to work on EG-related local issues and devise strategies that can be used by many DFIs around Asia to address similar problems;
- Raise awareness among member-DFIs and their respective senior executives about the continued need to fund and implement innovative initiatives for sustaining corporate Environmental Governance standards.

HIGHLIGHTS OF THE PROCEEDINGS OF THE CONFERENCE

Session 1. Guest Speakers: Best Case Examples

Representatives of three large development financial institutions in the region that were considered as best case examples in the finance sector in the field of corporate environmental governance were invited. The invited guest speakers were **Mr. Masami Tsuji** of the Asian Development Bank (ADB), **Mr. Takayuki Yamamoto** of the Development Bank of Japan (DBJ), and **Ms. Aurora Maghirang** of the Development Bank of the Philippines (DBP).

A. ADB's Framework on Environmental Assessment and Environmental Management System

One of the best examples of a DFI in the region that has succeeded in instituting environmental governance principles within corporate banking operations is the **Asian Development Bank**. The case of the ADB was presented and discussed in the conference by Mr. Masami Tsuji.

ADB established its environmental policy in 2002 and installed its Operations Manual and Environmental Assessment Guidelines in 2003. ADB's environmental policy consisted of five pillars; namely:

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- Environment Interventions for Poverty Reduction;
- Mainstreaming Environmental Considerations in Economic Growth;
- Maintaining Global and Regional Life Support Systems;
- Building Partnerships; and
- Integrating Environmental Considerations in ADB Operations

This policy was translated into operational terms through its Operations Manual which further detailed out the Environmental Assessment (EA) Guidelines along two levels:

- 1) Country programming level - for purposes of Country Environmental Analysis (CEA) as an input to Country Strategy and Program (CSP); and
- 2) Project level – for purposes of ensuring compliance with environmental assessment requirement of project approval and finance.



ADB's Mr. Masami Tsuji (left) shown with ADFIAP's Secretary General, Mr. Octavio Peralta

At the project level, the EA requirements are categorized according to lending modality as follows:

- project loans
- program loans
- sector loans
- sector development program loans
- financial intermediation loans thru credit lines and equity investments

B. DBJ's Loan for Promoting Environmentally-Conscious Management

The **Development Bank of Japan** has three focused areas; namely:

- (1) Environmental Protection;
- (2) Revitalization of Local Area; and
- (3) Technology Innovation and Venture Business.

DBJ loans for environmental sustainability started as early as 1960 and extended up to early 80's when the bank set up a lending window for encouraging anti-pollution investment



DBJ's Mr. Takayuki Yamamoto

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pollution control, smoke and soot control, waste disposal, noise reduction, energy saving, and others. From the year 2000, DBJ launched its program on environmental governance or environmental management for promoting corporate social responsibility (CSR). It is with this program that the DBJ introduced its well known Loans for Environmentally Conscious Management.

This most well known Japanese program has the following features:

- (1) Screening items and criteria are mostly made public.
- (2) Screening is based on the "Guidelines for Environmental Performance Indicators" by Ministry of the Environment.
- (3) Special consideration is given to SMEs.
- (4) Special items have been set up for different types of manufacturing and non-manufacturing industries.
- (5) Additional items are available to give special points to excellent business activities.

The screening evaluation system provided a rigid process and a structured set of a total of 126 evaluation items for 250 points have been set up. Applicants achieving 120 points or more are accepted. Successful applicants are further classified into three ranks (A, B & C) for different interest rates.

C. Environmental Governance in DBP

Another best case application of environmental governance in the finance sector and sustainable finance in the region is the **Development Bank of the Philippines**. It is the second large development finance institution in Asia that has successfully obtained an ISO 14001 certification. But even before getting an ISO certification, DBP has been undertaking sustainable finance practices, specifically the assessment of environmental risk factors of business loans, operating an Environmental Management Unit and conducting internal environmental activities as far back as 1994.



DBP's encourages clients to include environmental considerations in their business and thrusts.

DBP is one of the first Philippine banks to integrate environmental considerations in all aspects of its operations. DBP provides financing as well as technical assistance to projects that are environmentally sound. The Bank also plays an

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active role in encouraging clients, and its participating financial institutions under its wholesale lending program to include environmental considerations in their business and thrusts.



DBP's
Ms. Aurora Maghirang

Session 2. Plenary: Country Reports

As part of the pre-conference requirements, all ADFIAP member-DFI representatives were requested to prepare their country reports on the status of DFI institutional efforts made in the area of environmental governance. Each of the participants were given an opportunity to make a short presentation of their respective experiences in terms of developing and implementing a corporate environmental policy, environmental management system, and integrating environmental governance principles into their bank lending operations.



Sabah Credit Corporation delegates presented their country report

Most of the DFIs are currently in various stages of development of EMS and most if not all have already a clearly established environmental policy.

Session 3. Presentation of EU Research Studies:

Environmental Performance Monitoring Programs in Europe - Initial Findings

Ms. Burcu Tuncer presented the initial findings of the Background Research on Environmental Performance Monitoring Programs in Europe. She said that the objective of the study is to provide a review of best-case practices of internal environmental management in European banks. She briefly explained what internal performance monitoring means in the scope of this project, and why it is an important issue for the development financing institutions by giving examples from the European banks.

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Then, she explained the methodology followed for collection of information for the study. In total, 24 commercial and public banks studied total were the focus of the study. Among them, commercial banks were taken from the Dow Jones Sustainability Index Banking Sector List assuming that they would have superior internal environmental management practices and be forerunners. The European Development Financing Institutions with a certain size of total assets were picked from the member list of the United Nations Environmental Programme Financial Institutions (UNEP FI) Initiative. The study made use of their sustainability reports and information available on their websites.



Wuppertal Institute's
Ms. Burcu Tuncer

At the first stage of the EU research (i.e., the “initial filtering”), the study team identified 21 sectors from the DJSI Global List and selected 58 corporations, which are ranked top 2 according to the screening criteria of the SRI analysis organisation.

Two sets of data were reviewed; namely: 1.) the Dow Jones Sustainability Index based on sustainability reports of forerunners of commercial banks, and 2.) the United Nations Environmental Programme, for its sustainability reports of forerunners of development banks.



University of Leeds' Dr. Frank Figge stressing
a point during the workshop

Furthermore, the study employed selection of internal environmental aspects from three sources, including: (1) *Global Reporting Initiative (GRI) – Reporting Guidelines & Financial Services Sector Supplement*; (2) *Internal Environmental Performance Indicators for the Financial Industry* by the VfU (Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen e.V.: (Association for Environmental Management in Banks, Savings Banks, and Insurance Companies); and (3) *Guidelines on Environmental Management & Reporting for the Financial Services Sector* by the FORGE Group.

The study revealed a common list of internal environmental aspects as follows:

- Strategy and Management
- Materials
- Energy
- Water
- Solid Waste
- Emissions to Air
- Transport

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- Procurement and SCM
- Facility Management
- Training on Environmental Issues

Following in the study, each aspect revised in three dimensions, namely what is it?, how it is managed?, and how it is reported?. The sustainability reports of the banks are used to collect good measures to manage the environmental aspects, while the most commonly used indicators are compiled from the above-mentioned reporting schemes.

The presentation was finished stating some of the foreseen challenges and encouraging the participants for a self-assessment on the stage of internal environmental performance management.

Session 4. Workshop Discussions

Session 4 consisted of two workshops: Workshop 1 on Internal Environmental Performance Monitoring (IEPM) and Workshop 2 on Determining Economic and Environmental Importance of Sectors to DFIs.

Workshop 1 was designed to collect background information in order to develop courseware learning materials for establishing and implementing an internal Environmental Performance Monitoring (EPM) standard. In trying to achieve this objective, the workshop presented an opportunity for the project team to understand what opportunities there are in the Asian market. After a thorough discussion on the essential elements, benefits and process of internal environmental performance monitoring, the participants were asked to discuss:



The participants

- 1.) At which stage of implementation is your institution?
- 2.) If at all, which specific EPM standards or systems are in place? or What do you do to manage internal environmental issues?
- 3.) Which factors are / would be important in your context for selecting in-house priority environmental aspects?

Workshop 2, on the other hand, allowed the participants to identify the sectors that are most important to their banks and which sectors were environmentally relevant or could be subject to environmental risks. It furthermore showed how participants can identify relevant risk drivers based on their existing knowledge.

Session 5. Plenary: Wrap-up of Workshop Results and Group Resolution

After having gone through the two above-mentioned workshop exercises, all participants made their enthusiastic presentations regarding the questions; “where they are now” and “where they would like to be”.

The workshop results revealed the more significant highlights as follows:

- Majority of the DFIs fall in between the first wave-type (“Non-responsive/laggard”) and second wave-type (“Responsive/ trend-setter”) of organization. Among all, only CDA of Saipan claimed that they were a third wave organization taking action especially in the field of energy efficiency.
- Lack of a written policy on internal environmental governance supported by the board of management is a common case. Until now, top management commitment to improvements in environmental performance has been seldom. However, there are still some banks, where top management cares for environmental issues and tries to follow the trends (e.g., the Bank of Industry and Mine);
- When asked where they would like to be in the near future, majority of the banks indicated that they could become a full second wave, namely responsive institution (Figure 1). For instance, Malaysian Industrial

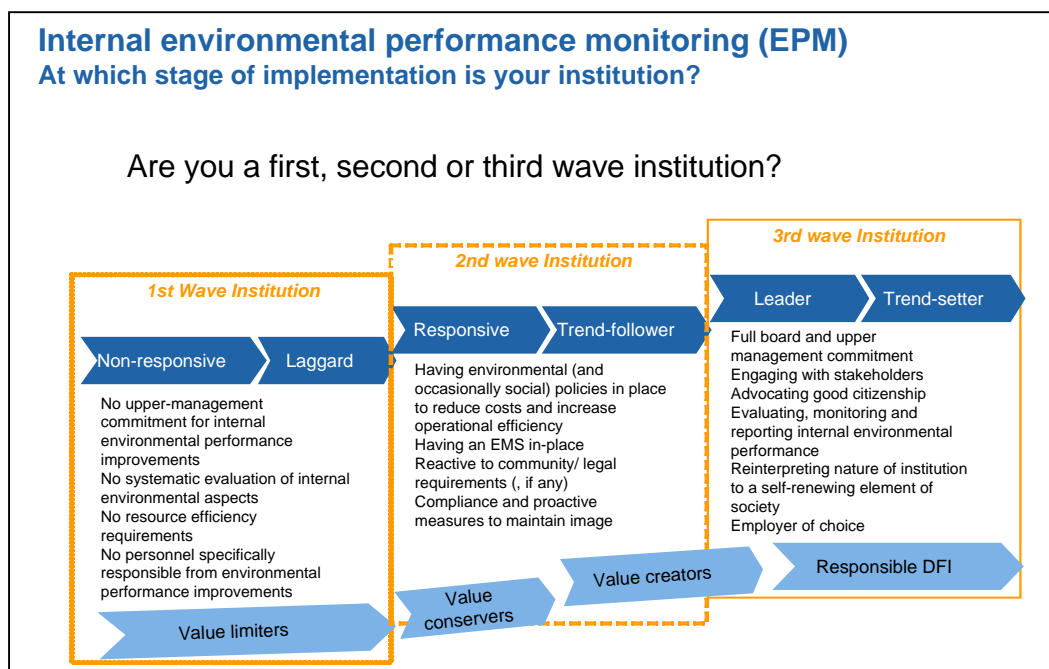


Figure 1

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- Development Finance Bhd stated that they would aim at acquiring an ISO14001 and so becoming more systematic with their internal environmental improvement efforts.
- Some participants demonstrated that they were aware of some good measures for handling single environmental aspects. Examples are:
 - 1) at the Small Industries Development Bank of India, they used low energy consuming light fixtures/fittings, put off the unused/unoccupied lights and air-conditioning system (ACs), Building Automation and Management Security System (BAMS) to monitor and control ACs, elevators, pumps, lights in order to save energy; and eco-friendly material in their own building for construction and interior furnishing;
 - 2) in the case of Eximbank of India, they took action to lessen paper use in the office, to avoid wastage of energy and to manage computer waste;
 - 3) RCBC Savings Bank in the Philippines, which tried to study ways of reducing electricity costs, especially concentrating on the air-conditioning units;
 - 4) Samoa stated that they started to develop environmental friendly operational procedures (energy efficiency, waste reduction, proper disposal) and internal communication through lotus notes.

The culminating activity of the 2-day conference was the drafting of a group resolution by all the participants, expressing their total commitment to support the post-conference activities as part of their contribution to the attainment of the objectives of the EGS project of the Association.

Session 6. Closing Remarks and Distribution of Certificates

The Closing Remarks was rendered by Mr. **Octavio B. Peralta**, Secretary-General of ADFIAP, followed by the distribution of certificates to all participants by **Ms. Burcu Tuncer** and **Dr. Frank Figge**.



O. B. Peralta, Dr. Frank Figge & Ms. Burcu Tuncer awarded the certificate of attendance to Malaysian delegate, Mr. Jimmy Bin Berukang of Sabah Credit Corp.

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Conference Team:

Project Director	Octavio B. Peralta
Project Officer	Sandra C. Honrado
Project/Research Assistant	Yolanda C. Velez
Conference Facilitator	Ma. Sandra I. Lim
Research Assistant 2	Lorina E. Cervantes

EU Partners / Main Resource Persons

- | | |
|--|-----------------------------|
| <ul style="list-style-type: none">• Wuppertal Institute• SRI, University of Leeds | Burcu Tuncer
Frank Figge |
|--|-----------------------------|

Guest Resource Speakers

- | | |
|---|---|
| <ul style="list-style-type: none">• ADB• DBJ• DBP | Masami Tsuji
Takayuki Yamamoto
Aurora Maghirang |
|---|---|

Opening / Keynote Speakers

- | | |
|---|---|
| <ul style="list-style-type: none">• Central Bank of the Philippines• EU• ADFIAP | Diwa Guinigundo
Luc Vandebon
Amb. Jesus P. Tambunting |
|---|---|